MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BME1014 – INTRODUCTORY MICROECONOMICS

(All sections / Groups)

12 OCTOBER 2016
09.00 am-11.00 am
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 4 Questions only.
2. Attempt **ALL** the questions.
3. Please write your answer in the answer Booklet provided.

QUESTION 1

(a) Every society faces the economic problem that it has only a limited amount of economic resources, and so it can produce only a limited amount of goods and services. Society faces trade-offs and every activity has an opportunity cost. Discuss this statement using appropriate examples.

(10 marks)

(b) The managers at firms such as Proton must make decisions regarding the production and marketing of their products. These decisions include the location and relocation of manufacturing plants and the production methods used at these plants. For example, producing more of one model of automobile means producing fewer of other models. Use a production possibilities frontier to show the efficiency, attainable and unattainable combinations of two products that may be produced with available resources and current technology.

(15 marks)

(Total marks: 25 marks)

QUESTION 2

(a) Differentiate between price elasticity of demand and price elasticity of supply.

(8 marks)

(b) Refer to the table below and find the value of price elasticity of demand and price elasticity of supply for taxi service.

Price per km ($)	Quantity demanded (km)	Quantity supplied (km)
2	100	200
3	40	250

(6 marks)

(c) Refer to the above Part b, is the demand for taxi service elastic or inelastic? Briefly explain your answer. (5 marks)

(d) Lately the earnings of taxi drivers in Kuala Lumpur have been badly affected by the increase in the popularity of ride-sharing services Uber and GrabCar. With the use of the concept of price elasticity of demand, explain the effect of Uber and GrabCar services on the price elasticity of demand for taxi services.

(6 marks)

(Total marks: 25 marks)

QUESTION 3

(a) Azhari left his job at High bank where he earned RM50,000 a year to start his private outfit, a clothing firm. He estimated his entrepreneurial talent or forgone entrepreneurial income to be RM10,000 a year. In the first year, the firm earned revenue of RM500,000. The costs for rent, supplies, and an employee's salary were RM200,000.

i) What was the accounting profit for the new business? (5 marks)

ii) What was the economic profit (or loss)? (5 marks)

(b) A consumer finds only three products, X, Y, and Z, are for sale. The amount of utility which their consumption will yield is shown in the table below. Assume that the prices of X, Y, and Z are RM5, RM1, and RM4, respectively, and that the consumer has an income of RM37 to spend.

Product X			Product Y			Product Z		
Quantity	Utility	Marginal Utility per RM	Quantity	Utility	Marginal Utility per RM	Quantity	Utility	Marginal Utility per RM
1	21	____	1	7	____	1	16	____
2	41	____	2	13	____	2	30	____
3	59	____	3	18	____	3	42	____
4	74	____	4	22	____	4	50	____
5	85	____	5	25	____	5	55	____
6	91	____	6	27	____	6	58	____
7	91	____	7	28.2	____	7	60	____

i) Complete the table by computing the marginal utility per dollar for successive units of X, Y, and Z to one or two decimal places. (5 marks)

ii) How many units of X, Y, and Z will the consumer buy when maximizing utility and spending all income? Show this result using the utility maximization formula.

(5 marks)

iii) Why would the consumer *not* be maximizing utility by purchasing 2 units of X, 4 units of Y, and 1 unit of Z? (5 marks)

(Total marks: 25 marks)

QUESTION 4

(a) What is the meaning of a perfectly competitive market? How firms in this market maximize their profits? (10 marks)

(b) Ariff owns a cucumber farm in Johor and he is one of 10000 cucumber farmers in Malaysia that produce over 12 million tons of cucumber in 2016. Ariff believes he will sell his cucumbers at RM 300 per ton.

i) Calculate the missing values in the following table for Ariff's total revenue, marginal cost and marginal revenue. (7 marks)

Total Output (per ton)	Total Cost	Marginal Cost	Total Revenue	Marginal Revenue
0	RM 20	—	RM 0	—
1	50			
2	80			
3	110			
4	140			
5	170			
6	200			
7	230			
8	260			

ii) What type of market Ariff is working in? (3 marks)

iii) And how much should Ariff produce to maximize his profits? (5 marks)

(Total marks: 25 marks)

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